



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Rate Rebate Replacement Scheme:
Department of Finance and Personnel

12 March 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Ms Michaela Boyle
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Brian McClure	Department of Finance and Personnel
Ms Roisin McRory	Department of Finance and Personnel
Mr John Richardson	Department of Finance and Personnel

The Chairperson: Brian, you are very welcome.

Mr Brian McClure (Department of Finance and Personnel): Thank you, Chair.

We said quite a lot in the informal session about our current thinking. The position is that the Minister is giving all of this very careful consideration, not simply the modifying of the existing scheme to work with universal credit but some of the other proposals that were tested through consultation and deal with rationalising other rate reliefs; the future of the lower income rate relief scheme, which is a top-up scheme; and the need for a hardship scheme in light of any changes to other support measures. That is about it as far as progress on the policy is concerned. It and the analysis are with the Minister, and he will make a decision shortly, I hope. The decision will be a matter for the full Executive because it is clearly a cross-cutting and controversial issue.

The Chairperson: What further work is required?

Mr McClure: We have been through two public consultations within the past year. Therefore, we have consulted enough, and we have undertaken all the research and analysis that we think necessary to make informed decisions.

The Chairperson: When do you expect this to go before the Executive?

Mr McClure: It depends on what the Minister decides. If he asks for more work to be done on a particular area, we will do it. However, I am hopeful that something will go to the Executive within weeks.

The Chairperson: Is much subordinate legislation required? If so, is there a timetable for it?

Mr McClure: We are moving rate rebate out of housing benefit legislation, so we have to move under the Rates Order. Therefore, we will have to remake all the associated regulations as Department of Finance and Personnel (DFP) regulations. We hope to track any changes that occur as housing benefit is phased out, but the volume of regulations is quite extensive.

Ms Roisin McRory (Department of Finance and Personnel): There are two main sets of housing benefit regulations currently: one for working age; and one for pension age. We have to replicate those for DFP and take out everything to do with rates. Of course, anything to do with rent will not form part of the regulations. Those two main sets are substantial, so there is quite a lot of work.

The Chairperson: Theoretically, if the Executive were to agree the scheme in April, how long would it take to do all the work on the regulations?

Ms McRory: The scheme is planned for April 2015, so we hope to have the regulations made by December.

Mr McClure: We hope to present the Committee with material for scrutiny within six months. Is that right, Roisin?

Ms McRory: Yes, probably.

The Chairperson: It will be the other side of the summer recess.

Mr McClure: Yes.

We are working very closely with the Department for Social Development (DSD) and the Housing Executive to ensure a smooth migration of cases to Land and Property Services (LPS). The time to brief you on that is probably a few weeks away. I am not sure whether a slot has been agreed for that, but I think that it is too early to give a progress report. I know that it came up at our previous evidence session.

DFP's rating policy division has started to look at a longer-term solution: how an easier scheme — easier for claimants and easier for government to administer — could be developed. We will advise the Committee of progress on that.

Mr Cree: Brian, do you envisage there being only one set of regulations to cover all the changes necessary or will there be a series?

Ms McRory: We anticipate two sets because of the differences between working age and pension age regulations. The pension age ones are more generous sometimes. Therefore, we envisage replicating what is there now.

Mr Cree: So there will be one set for each.

Ms McRory: Yes.

The Chairperson: Brian, do you want the Committee to reach a position on the models and schemes? If so, by when?

Mr McClure: It would be very helpful to have an answer on what we are doing on modifying the scheme as soon as possible. Nothing will go to the Executive without a Committee view. The proposals are with the Minister to consider, but he wants to hear from the Committee before doing anything.

The Chairperson: We will move on to the small business rate relief. Brian, will you give us an update and some detail on the papers before us this morning?

Mr McClure: I sent you the draft terms of reference. They have been cleared through the Minister, agreed with the Northern Ireland Centre for Economic Policy (NICEP) at the University of Ulster and

are now with the Committee for comment. We are happy to take on board any comments from the Committee. The work will begin shortly. I have a meeting scheduled for this Friday with Neil Gibson at the University of Ulster to decide respective roles in taking this forward. DFP has almost concluded a sponsorship arrangement with the Northern Ireland Centre for Economic Policy (NICEP). That will allow it to do some work for the Department, and its first piece of work will be the evaluation of small business rate relief. We think it very important that ratepayers can see an independence to this evaluation. There will probably be a survey of business, and there will be consultation with the business community. It could not start sooner because we have to see the emerging findings from the revaluation and what that is doing for small business. You recall from the recent evidence session, about three weeks ago, that LPS is well advanced in its first-pass valuations. It has until the end of this month to conclude those. From what I can gather, it is halfway through the shop evaluations and will have completed those within two or three weeks.

The Chairperson: Have you any views on the longer-term funding, Brian?

Mr McClure: It will be part and parcel of the Budget process. A significant price tag is associated with small business rate relief, which, as you know, was part-funded by the large shops levy. The Executive have committed to ending the levy when the revaluation takes effect. There is a sunset clause in the legislation, so it will come to an end. Both the current Finance Minister and his predecessor gave a commitment that it would not extend beyond April 2015.

The Chairperson: How does the changing business environment and decrease in the number of small businesses in circulation affect the cost of the scheme? How has the cost changed over the past couple of years?

Mr McClure: The scheme is currently determined by valuation threshold, so a fixed number of businesses qualify. Even if there were a growth in business, that would have to be mirrored by new premises coming on to the valuation list. Is that what you are asking?

The Chairperson: I was asking what the year-on-year cost is.

Mr McClure: Since the scheme was introduced in 2011, it has been enhanced on two occasions and currently benefits 25,000 business ratepayers in Northern Ireland. Previously, the figure was significantly lower.

The Chairperson: Members, do you have any further questions?

Mr McClure: Is anything in the draft terms of reference unclear?

The Chairperson: Is there anything that you want to highlight? I am conscious that members might be seeing this for the first time. Is there anything that we should focus on?

Mr McClure: I was not really expecting a full consideration of the draft this morning. If the Committee could get back to me by the end of the month, that would be very helpful.

The Chairperson: In the Assembly, I raised the issue of exceptional cases: businesses with a high square footage but low profit margins. How would such cases be taken into account?

Mr McClure: It is very difficult, as the terms of reference refer to. One of the key features of the small business rate relief scheme is that it is awarded automatically. Once you start introducing other rules or exceptions, it makes it very difficult for LPS to administer and make awards automatically. A feature of all the UK schemes — in Scotland, Wales and England — is that they use the valuation levels to determine entitlement, and that is what we do. If we were to depart from that or make certain exceptions, LPS would have to make the decisions. Quite often, it does not have the data to allow it to distinguish between sectors of business. So then we would have to ask people, meaning that they would have to apply. Once people start to apply, there are issues with take-up, awareness and so on, and all the benefits of automation are lost. That is not to say that we should not consider them, but you asked me what the issues were, and those are the issues.

Mr Girvan: I appreciate that there is one sector that we make an exception for, and that is the agriculture sector. There seems to be leniency on square footage, and those in that sector are

allowed to build as many sheds as they want. Even though some might be only for finishing off cattle for beef, they can have as large a shed as they want without any impact on their rate entitlement. A difference is made for that sector. I do not want the agriculture sector to lose out; I am just saying that we already make that difference.

Mr Weir: For the purposes of the local paper. *[Laughter.]*

Mr Girvan: We have that loophole.

Mr McClure: The last time that I gave evidence to the Committee and mentioned the potential for rating agriculture land and agricultural buildings, there were headlines in the 'News Letter' and 'The Irish News' the next day. I claim the fifth on that one.

Mr Girvan: I appreciate that, but I am stating that we already have rate adjustments. Whether we made them or they came from central government — they probably came from central government under direct rule — accommodations were made. Land is one issue, but buildings are another. Some of those buildings could be quite profitable.

Mr McClure: It is a fully devolved matter. We could decide to do something different here if we wanted to and there was the political will to do so.

Mr Girvan: The fact is that we make accommodations for certain businesses. They are in special categories and receive special allowances.

Mr McClure: Agricultural buildings and land do not even feature in the valuation list. The information is not even gathered and has not been since, I think, the 1920s or 1930s.

Mr McQuillan: I agree with that.

Mr McClure: I am starting to get twitchy. *[Laughter.]* I would very much appreciate feedback on the terms of reference. That will not stop us making a start. As I said, I have a meeting arranged with Neil Gibson from the Northern Ireland Centre for Economic Policy on Friday to begin the process and decide how we will approach it.

The Chairperson: In general terms, the small business rate relief scheme and the revaluation will come to fruition next year. What kind of feedback or noises are you hearing from the business community and the Chambers of Commerce? Is there much concern?

Mr McClure: We are not hearing enough from them. I am worried that there is an unrealistic expectation about what the revaluation will deliver. On a number of occasions, I have told the Committee that everybody thinks that they will be a winner because rents have gone down since the boom days. However, it is not a question of what has happened to rents since the boom days; it is what has happened to their rent since the last revaluation took place in 2003. Intuitively, everybody is wondering how they can lose from the revaluation. I have mentioned the figures before. Some rates will go up, some will go down and quite a number will not change much. That is the reality, but everybody thinks that they will be in the category of getting a reduction, and that is a major problem.

Of course, as I said at the previous meeting, if we couple that with the total current values in the existing valuation list and set that against the total value in the new list, it is highly likely that we will be dealing with lower values, which mean higher poundage and multipliers. Explaining that will be a big problem for the Department and politicians. It will be a higher tax rate against lower values, but people will just focus on the tax rate and say that the rates have gone up. It is a very difficult issue to communicate and handle.

Mr Cree: You mentioned a point that I was going to make: what people will pay is the important issue.

Mr McClure: Yes, that is absolutely right.

Mr Cree: They could be paying more even as things stand. Even if rents went back to 2003 values, the poundage would still be significantly higher.

Mr McClure: No, the regional rate would be held because the commitment is to raise more or less the same amount after the revaluation as before it. It is an exercise in redistribution, so, if the total value did not change, you would not be hiking up the regional rate.

Mr Cree: So, really, we should go back to 2003 values.

Mr McClure: The concern is that, because of the way that the property market has gone, the total value will have reduced, so the only way to raise the same amount is to increase the rate. That is the issue.

Mr Cree: Or is it the number of properties never valued?

Mr McClure: If there were a whole lot of properties not valued, that would be right, but I do not think that that is the case.

Mr Cree: That might relate to the case that Paul made about a lot of redundant farm buildings now being in use as businesses.

Mr Weir: Are you making that call?

Mr Cree: I think that Paul would like that to be sorted out, too.

Mr Girvan: It would encourage farm diversification.

Mr McClure: A farm diversification scheme existed until two or three years ago, but take-up was poor. There was a 50% discount if you diversified by opening a farm shop or something like that. Maybe it was easier for people not to declare it than to look for a discount.

Mr McQuillan: Planning was a big issue as well.

Mr McClure: I will go back to the revaluation. People could still find that their valuation, their net annual value (NAV), goes down and their rates go up.

Mr Cree: That is, I would say, exactly what will happen.

Mr McClure: In answer to your question about engagement and feedback, I do not think there is a good enough understanding among the business community of what this revaluation is about, what it will do and what the market will dictate. It is not LPS deciding the values; it is LPS interpreting the market and applying that.

Mrs Cochrane: From the work that I have been doing with the business sector, it is clear that people think that they will be winners. There is a bigger challenge for us, which is to explain what businesses get for their rates. Is the Department planning to do something to shed a positive light? If rate bills do not go down, will there be an attempt to explain to businesses what are they getting? Domestic ratepayers can, at least, say that they get their bin emptied, but that does not apply to commercial ratepayers, so there is that kind of —

Mr McClure: LPS produces a very good explanatory leaflet that goes out with every rate bill, and it explains exactly what rates contribute to.

Mrs Cochrane: All I am suggesting is that there may be an opportunity to draw out positives for business that might help to smooth the process.

Mr McClure: I agree.

The Chairperson: Members have no further questions, so, Brian, Roisin and John, thank you very much.